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Initial Conditions and Miraculous Growth: Why is South East Asia Different From Taiwan and South Korea?

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Summary. — The paper argues that the economies of East and South East Asia are a very diverse group, only some of which have grown rapidly over the past three decades. The fast-growing economies of South East Asia, especially Indonesia, Thailand and Malaysia are in a number of important respects different from the fast-growing economies of North East Asia, Japan, Taiwan and South Korea. The different colonial legacies have had important consequences for educational progress and the distribution of income and wealth. Government intervention has tended to be less growth-promoting and more oriented to goals such as inter-ethnic redistribution of wealth. The implications of these differences for future economic growth in South East Asia are discussed. © 1999 Elsevier Science Ltd. All rights reserved.

1. INTRODUCTION

The last decade has seen an explosion of work on the fast-growing economies of East and South East Asia, by individual scholars and by the international development institutions. Influential books by Amsden (1989) and Wade (1990), as well as the work of Johnson (1982, 1995) have explored the nature of the East Asian developmental state, and especially the role of government in determining the allocation of resources to particular industries, in building infrastructure and in the development of the educational system. The widely discussed report published by the World Bank (1993) on the East Asian "Miracle" endeavored to draw lessons not just from the experience of Japan, Taiwan and Korean but also from four fast-growing economies in South East Asia, Singapore, Indonesia, Malaysia and Thailand. The recent growth experience of China was also discussed. This report and the large literature which it generated have tended to convey the impression that the huge area of the world which the term "East Asia" embraces have all experienced rapid economic growth over the last three decades, and that from their experience a coherent set of "lessons" can be drawn for less successful economies in other parts of the world.[1]

The evidence available even before the dramatic events of 1997–98, shows clearly that such an impression is wrong. Indeed if we examine the growth experience of all the economies of East Asia for which data are available since the early 1960s it is clear that they fall into four groups (Table 1). The first group of economies are those which had very low per capita incomes in 1960 and have experienced very modest growth rates since then; Cambodia and Burma fall into this category and so do Laos and Vietnam although in both these economies GDP growth has accelerated since the late 1980s. A second group of low achievers include Brunei and the Philippines, both economies which had relatively high per capita GDP in 1960 but which have grown very slowly since then. A third group comprises what are perhaps the true "Asian miracles", those economies which had low per capita GDP in 1960 but which have grown rapidly (4% per annum in per capita terms or more) since then. Into this group falls Indonesia, South Korea and Thailand. Last are another group of high achievers in the growth stakes who started from rather higher per capita GDP levels, but have

* Final revision accepted: June 27, 1998.

Table 1. *Growth in per capita GDP, 1960–92*

Country	Per capita GDP		Average annual growth rate 1960–92 (%) [b]
	1960	1992 [a]	
Japan	3052	15,496	4.5
Singapore	1649	13,095	6.9
Taiwan	1258	8,211	6.3
South Korea	899	7,464	6.9
Malaysia	1497	5,614	4.4
Thailand	969	3,931	4.1
Indonesia	589	2,040	4.8
Philippines	1165	1,707	1.3
China	559	1,480	3.7
Laos	n.a	1,377	n.a
Burma	315	608	1.8

[a] Data refer to per capita GDP in 1985 international dollars, adjusted for changes in the terms of trade. Data for Laos and Korea refer to 1991; for Korea to 1990 and for Myanmar to 1989.
[b] Calculated by fitting a semi-log function to the data.
Source: Penn World Tables version 5.6 as published on the Internet.

grown fast since the 1960s; they include Taiwan, Malaysia and Singapore. Singapore had the highest per capita income in the region in 1960 and has grown very rapidly since then with the result that by the mid-1990s per capita GDP was higher than the West European average (World Bank, 1997, p. 215).

Although there can be little dispute about the broad facts of GDP growth in East Asia over the past 30–40 years, there is far more room for debate on the causes of the patterns depicted in Table 1. In this paper, I wish to argue that the causes and characteristics of the rapid economic growth of South Korea and Taiwan (and indeed Japan especially during 1955–75), are in a number of crucial respects different from those in the fast-growing countries of South East Asia, especially in Malaysia, Indonesia and Thailand. I try to spell out the nature of these differences, and discuss their implications for the sustainability of economic growth in these three economies. But before doing this, it is necessary to look in more detail at some key aspects of the North East Asian model, as exemplified in particular by Taiwan and South Korea.

2. KEY ASPECTS OF THE "NORTH EAST ASIAN MODEL"

Although the literature on the growth process in Japan, Taiwan and South Korea is vast, it is possible to distill several key explanations for rapid growth, on which there is widespread agreement.[2] These include: the importance of investment in both human and physical capital, the egalitarian distribution of income and assets, the importance of rapid export growth and the "insulated" nature of government decision-making. I look at each in turn.

(a) *Initial conditions: the importance of human capital*

Virtually everyone who has written about economic development in South Korea and Taiwan has stressed the importance of education. In 1960, literacy rates, and primary and secondary enrollment ratios in both countries were already well above what would have been predicted on the basis of per capita income alone (Rodrik, 1994, p. 15; Rodrik, 1995, pp. 75–76; Ranis, 1995, p. 511). In Taiwan in particular, educational progress under the Japanese was impressive especially at the primary level; by 1944, 81% of boys and 61% of girls of school age were enrolled in school (Tsurumi, 1977, Table 13). Tsurumi (1977, p. 222) argues that with the exception of the Americans in the Philippines, "no other colonial power in Asia or elsewhere approached native education with anything like the seriousness of purpose of Japanese educators in Taiwan." After 1950, the KMT government built upon this favorable colonial legacy; Woo (1991, Table 2) has shown that both primary and junior high school enrollments grew rapidly through the 1950s and 1960s. At the senior high school level, vocational enrollments grew rapidly, and by 1970

Table 2. *Percentage distribution of the employed labor force by years of school completed: South Korea, Indonesia and Thailand*

Country	Per capita GDP [a]	Years of schooling (% distribution)		
		0–5	6–11	Over 12
Male Labor Force				
Korea 1966	1159	26.1	52.0	21.9
Indonesia 1980	1265	62.3	30.3	7.4
Korea 1970	1694	19.0	57.9	23.1
Indonesia 1986	1658	42.5	46.4	11.1
Thailand 1974	1689	86.0	10.4	3.6
Korea 1974	2251	13.6	59.6	26.8
Indonesia 1994	2241	30.0	51.9	18.1
Thailand 1981	2231	83.3	10.9	5.7
Female Labor Force				
Korea 1966	1159	48.4	45.6	6.0
Indonesia 1980	1265	77.3	18.2	4.5
Korea 1970	1694	37.8	55.4	6.8
Indonesia 1986	1658	60.0	34.0	6.1
Thailand 1974	1689	91.9	5.4	2.7
Korea 1974	2251	29.6	61.4	9.0
Indonesia 1994	2241	43.5	44.1	12.4
Thailand 1981	2231	89.5	5.8	4.6

[a] Per capita GDP in 1985 international dollars adjusted for changes in the terms of trade.
Sources: South Korea: McGinn *et al.* (1980), pp. 112–113; Thailand: *Report of the Labour Force Survey, July-September, 1974 and 1981* (Bangkok: National Statistical Office); Indonesia, *Population Census 1980, Series S2; Labour Force Situation in Indonesia, 1994* (Jakarta: Central Bureau of Statistics).

they had caught up with academic enrollments at that level (Woo, 1991, Table 3).

The Japanese educational legacy to Korea was rather different from that in Taiwan. Tsurumi (1984, pp. 308–309) argues that when the Japanese established control over the Korean peninsular in the first decade of this century, there had already been a proliferation of "modern" schools, some of them established by Christian missionaries. Beginning in 1919, the Japanese colonial authorities set about eliminating all private (including Christian) schools and introducing universal primary education in Japanese (McGinn *et al.*, 1980, pp. 81–98). Those young Koreans who were educated in the Japanese system did not modify their intense Korean nationalism, and there was much criticism at the lower enrollment rates among Korean children compared with children from Japanese families. But by 1945 almost 45% of Korean youth were enrolled in primary school, and after 1945 both primary and secondary enrollments grew rapidly. Thus in the 1960s when the momentum of industrialization was gathering pace, only 26% of the male labor force, and 48% of the female labor force had less than five years education (Table 2). These percentages declined rapidly thereafter.

By the latter part of the 1960s, Taiwan was devoting almost 3% of GDP to government expenditures on education and South Korea well over 4%. Although as Ranis (1995, p. 519) has shown, the initial educational advantage enjoyed by Taiwan over Korea at the end of the Japanese colonial period was maintained until the 1980s, the difference between both Taiwan and South Korea and much of the rest of East and South East Asia was marked. Government expenditures on education as a share of GDP in the late 1960s were higher in both countries than in either the Philippines or Indonesia in the early 1990s (Table 3). In 1973, when per capita GDP in South Korea was roughly the same as in Thailand in 1978, government expenditures on education as a percentage of GDP were considerably higher, as were secondary enrollment ratios (Table 3). Certainly both Taiwan and South Korea were concerned about "overexpansion" of the education system and the emergence of educated unemployment, but in spite of such concerns, both governments were prepared to invest in the expansion of general, vocational and on-the-job training (Woo, 1991, Table 3; Amsden, 1989, p. 217; Kim, Shim and Kim, 1995, Table 7.4). The rather different attitude of at least some South

Table 3. *Government expenditures on education and gross enrollment ratios*

Country	Government educational expenditure as % of GDP	Gross enrollment ratios	
		Primary	Secondary
Per Capita GDP (*Approx* $*5600*)			
Malaysia (1992)	5.5	93	60
South Korea (1988)	3.3	104	87
Taiwan (1985)	4.1	99	90
Singapore (1976)	2.7	110	54
Japan (1965)	4.3	100	82
Per Capita GDP (*Approx* $*3930*)			
Thailand (1992)	4.0	99	37
South Korea (1984)	5.8	99	91
Taiwan (1978)	3.3	101	76
Per Capita GDP (*Approx* $*2040*)			
Indonesia (1992)	2.2	114	43
Thailand (1978)	2.4	92	28
South Korea (1973)	3.6	104	51
Malaysia (1970)	4.4	87	34
Taiwan (1969)	3.3	98	n.a
Per Capita GDP (*Approx* $*1700*)			
Philippines (1992)	2.3	112	77
Indonesia (1988)	0.9	118	47
South Korea (1970)	4.6	105	43
Taiwan (1966)	2.8	103	40
Per Capita GDP (*Approx* $*1480*)			
China (1992)	2.0	124	51
Indonesia (1981)	2.2	117	30
Philippines (1972)	2.0	115	51
Thailand (1969)	3.5 [a]	81 [a]	16 [a]
South Korea (1969)	4.6 [a]	105 [a]	43 [a]

[a] Data refer to 1970.
Source: *Unesco Statistical Yearbooks*, various issues, with additional data on Taiwan from the *Statistical Yearbook of the Republic of China, 1995*, Tables 47, 53. Per capita GDP in 1985 international dollars adjusted for changes in the terms of trade, taken from Penn World Tables, version 5.6.

East Asian governments to the expansion of access to post-primary education is examined in greater detail below.

(b) *Initial conditions: the distribution of income and wealth*

The second feature of the economies of South Korea and Taiwan which has attracted widespread notice is the very equal distribution of income and wealth which characterized both economies at the start of their era of accelerated growth, and which has persisted until the 1990s. Rodrik (1995, Figure 13) has argued that in both countries, the Gini coefficient for income and land distribution was unusually low, and that the "relatively equal distribution of income and wealth was critical" in insulating the government from sectional pressure groups. Although the international data on which these comparisons are based may be flawed for a number of reasons the basic point is probably correct. The peculiar historical conditions under which both Taiwan and South Korea began their process of accelerated growth undoubtedly did create an unusually even distribution of income and wealth. In Taiwan the influx of migrants from the mainland displaced and disempowered the indigenous elites while in South Korea the effects of the civil war and the large-scale migration from the north to the south was to create an economy where very few

had access to more than the basic means of subsistence. Thus neither government had to contend with powerful landed elites, as in much of Latin America, and nor was there an established class of industrial or financial entrepreneurs to feel threatened by new directions in economic policy-making.

Much of the discussion of income distribution in Taiwan and Korea has focused on the personal distribution of income, but it also needs to be stressed that both societies were characterized by a high degree of ethnic homogeneity. Where there were ethnic minorities such as the aboriginal population of Taiwan, they were small and played very little role in the modern economy. The very sharp disparities in the distribution of income across ethnic groups so characteristic of South East Asia have not been a feature of either economy, at least since the departure of the Japanese. In addition, regional disparities in income were quite modest in the initial phases of accelerated growth, and have not increased dramatically in either economy, in spite of rapid urban growth and substantial rural-urban migration.

(c) *The role of government and "insulated" bureaucracies*

Apart from the supposedly unique (or at least highly unusual) initial conditions of South Korea and Taiwan, the issue which has attracted most attention is the role that government has assumed in promoting the growth process in these two economies. It is argued that while public expenditure has been kept low relative to GDP, mainly by curtailing welfare expenditures, governments in the North East Asian developmental states

> played an active role in creating market institutions such as long-term development banks and capital markets... By using, directing and supplementing markets rather than replacing them, the private sector remained the center of economic activity... when the private sector disagreed with the government, it was permitted to go ahead and risk its own capital (Stiglitz, 1996, p. 173).

Drawing on numerous studies of both Taiwan and Korea, Stiglitz suggests that governments encouraged firms to export at least partly because "exports provided a performance-based criterion for allocating credit, encouraged the adoption of international standards, and accelerated the diffusion of technology." Contests among exporters were used as incentive devices with key bureaucrats acting as impartial referees, and allocating resources to those firms who achieved the highest performance standards. Obviously if government officials are to play this role effectively they must have a high degree of competence and autonomy and be insulated from powerful interest groups, and from politicians. In Japan, South Korea and Taiwan there can be little doubt that such bureaucratic autonomy has been a crucial characteristic of the "North East Asian developmental state." In the context of Japan, Johnson (1995, p. 68) has argued that the Japanese economic bureaucracy

> is itself legitimated by its meritocratic character. It attracts the best talent in the country and continuously seeks new information from all possible sources. It is insulated from the corruption that strong state systems normally generate. Japan displays the usual qualities of an Asian kleptocracy only in its ruling party, but the party's functions in the Japanese system are to reign, not to rule. The latter is entrusted to an elite officialdom.

In the South Korean context, Amsden (1989, p. 16) has argued:

> The sternest discipline imposed by the Korean government on virtually all large size firms — no matter how politically well connected — related to export targets. There was constant pressure from government bureaucrats on corporate leaders to sell more abroad — with obvious implications for efficiency. Pressure to meet ambitious export targets gave the Big Push into heavy industry its frenetic character.

It should be noted that writers such as Johnson and Amsden are not claiming that the political systems in Japan and South Korea were free from corruption; they are well aware of the abundant evidence to the contrary. What they are claiming is that an insulated economic bureaucracy in both countries has been permitted to set strict performance criteria, and to discipline private sector firms who did not measure up.[3] This in turn permitted the implementation of government policies designed to establish and strengthen non-existent or weak markets (such as credit markets), or to overcome coordination failures (Stiglitz, 1996, pp. 158–161). The extent to which government officials can, or wish to behave in this way in South East Asia will be assessed below.

(d) *High levels of physical investment*

On this aspect of the East Asian experience there is also little debate; rates of investment have been maintained at high levels for much of the past four decades. A number of researchers have applied techniques of growth accounting based on a production function in order to apportion the growth of output between growth in factor inputs on the one hand and growth in total factor productivity on the other. Most studies have found that in all the fast growing economies of East and South East Asia rapid rates of growth of factor inputs (both labour and capital) explain a high proportion of the observed growth in GDP (Young, 1995; Kim and Lau, 1994; Collins and Bosworth, 1996). Collins and Bosworth (1996, Table 6) show that for 1960–94 growth in total factor productivity accounts for less than 30% of growth in output per worker throughout the region. This suggests that the East Asian miracle was primarily a miracle of accumulation rather than productivity growth. As Collins and Bosworth (1996, p. 138) point out, the implication of these findings is that, if

> efficiency gains are not lead actors in the Asian success stories, then debates over the roles of government and the private sector in raising productivity, while of interest in their own right, cannot hope to uncover the lessons from the Asian experience.

If indeed high rates of investment sustained over decades have provided the basis for rapid growth in East Asia, then the key question becomes: why were rates of investment so high? Certainly governments have used a range of policies to encourage high savings by households; in addition, government consumption expenditures, including welfare transfers, in most of the fast growing economies of the region have been kept under firm control, permitting high levels of government savings and investment. In several economies in the region (especially Taiwan, South Korea and Singapore) public enterprises account for a substantial share of capital formation. Foreign aid was an important source of investment funds in the 1960s in both Taiwan and South Korea, but declined thereafter. The importance of direct foreign investment in total capital formation varies considerably in different parts of East Asia but only in Singapore and Malaysia has it accounted for more than 10% of the total over 1971–91 (Table 4). In South Korea, the gap between domestic savings (government, corporate and household) and investment was filled by foreign borrowing by both government and private entities (Amsden, 1989, p. 72–76).

There can be little doubt that a crucial role of government policy in both South Korea and Taiwan was to provide a climate of incentives which encouraged high rates of household savings and domestic private investment, especially but not exclusively in the export sector. Indeed it has been argued that the measures taken by both governments to stimulate savings and investment by themselves were sufficient to "initiate a self-reinforcing process of industrialization" (Norman, 1995, p. 102). According to this view, additional explanations about, for example, government "coordination of investment projects" are redundant.[4]

(e) *Exports and growth*

During the period of Japanese rule, Taiwan and Korea both displayed several of the characteristics of a colonial export economy. A high proportion of export and import trade was conducted with Japan; by the late 1930s, 84% of Korean exports and 90% of Taiwanese ex-

Table 4. *Ratios of FDI inflows to gross domestic capital formation*

Country	1971–75	1976–80	1981–85	1986–91
Korea	1.9	0.4	0.5	1.1
Taiwan	1.4	1.2	1.5	3.5
Hongkong	5.9	4.2	6.9	12.1
Singapore	15.0	16.6	17.4	29.4
Indonesia	4.6	2.4	1.0	2.4
Malaysia	15.2	11.9	10.8	9.7
Thailand	3.0	1.5	3.1	6.3
Philippines	1.0	0.9	0.7	5.7

Source: Yoshida *et al.* (1994), Table 4.4.

ports went to Japan; a similar dependence on Japan occurred on the import side as well (Ho, 1984, Table 4). In both countries, exports were dominated by foodstuffs and industrial raw materials.[5] Exports comprised a high proportion of GNP; Amsden (1989, Table 3.6) claims that in 1936–38, foreign trade (exports and imports) comprised 75% of GDP in Korea. In per capita terms exports from Korea grew very rapidly between 1909–13 and 1934–38, although there was little change in Taiwan. In comparison with other parts of Asia, exports per capita were not especially high in either Taiwan or Korea; about the same as from French Indochina and much lower than British Malaya or Burma (Table 5).

After 1945, the export economies of both Taiwan and South Korea took some time to recover; in South Korea per capita exports in 1958–62 were well below the level of the 1930s in nominal US$ terms (Table 5). After 1960 the rapid GDP growth in South Korea and Taiwan has been associated with a rapid growth in the quantum of exports. On this point there is little dispute; what is far less clear is the direction of the causation. Did rapid export growth lead to rapid GDP growth, and if so how? Or did rapid growth of GDP, fuelled by high rates of investment, in turn lead to rapid growth of imports, thus putting pressure on governments to promote export oriented industries? Or were both forces at work? As far as the first argument is concerned,

> there are good reasons to expect — at least for small countries — a strong correlation between exports and growth... The correlation derives from perhaps the oldest observation in economic theory; namely Adam Smith's assertion that the division of labour is limited by the extent of the market. If there are economies of scale — internal or external to firms — efficient production is only possible if there is access to markets of sufficient size (Norman, 1995, p. 101).

This argument has been termed by Myint (1987, p. 121) the productivity theory of international trade. An implication is that, while large economies such as the United States, Germany or the former Soviet Union could industrialize rapidly using the domestic market, this is simply not an option for smaller economies such as Taiwan and Korea. The recent experience of China suggests that even large economies are well advised to take advantage of export markets in order to reap the full benefits of scale economies in export-oriented industries.

The second argument, that growth in Taiwan and South Korea was essentially investment-led, "with the causality running from investment to imports and from imports to exports" is suggested by Rodrik (1995, p. 226). But the evidence is not entirely convincing; the data for

Table 5. *Exports per capita (US$), 1909–13 to 1991–95*

Country	1909–13	1934–38	1958–62	1991–95
Singapore	a	a	671	29,380
Brunei	b	b	133	8,463
Taiwan	6	6	26	4,279
Malaysia	88	88	121 [a]	2,684
South Korea	0.5	7	1	2,048
Thailand	4	6	15	692
Indonesia	5	6	7	194
Philippines	5	8	19	187
Laos	c	c	3	50
Vietnam	3	4	5	49
Cambodia	c	c	12	22
Myanmar	10	12	10	19

[a] In 1909–13 and 1934–38 Singapore is included with Peninsular Malaya under Malaysia. In 1958–62 Malaysia excludes Sabah and Sarawak.
[b] No data for Brunei prior to 1950.
[c] In 1909–13 and 1934–38 Cambodia and Laos are included with Vietnam. In 1958–62 Vietnam refers only to South Vietnam.
Sources: 1909–13 and 1934–38: Mitchell (1982) pp. 389–392, with additional data from Andrus (1948), Tables 3 and 27;, Ingram (1971), Appendix C and D; *Changing Economy of Indonesia*, Vol 12a; Leurence (1925) and Rahm (1952). Exchange rates from van der Eng (1993), Appendix Table. 1958–62 and 1991–95: International Monetary Fund, *Direction of Trade Statistics Yearbook*, 1958–62, 1996, *International Financial Statistics*, various issues.

both countries suggest that the export boom preceded the import boom. In addition, as Sundrum (1990, p. 229) has shown, there is quite a high correlation between export growth in Taiwan and growth of investment two years later, which supports the argument that it was growth of exports which created profitable opportunities for investment. But as Sundrum points out, both forces were probably at work in a "virtuous cycle of export-led growth." Policy changes in the late 1950s in Taiwan, including devaluation, improved incentives for exporters of both primary products and manufactures. The initial export spurt in turn encouraged further investment, which led to further export growth and diversification.

3. SOUTH EAST ASIA: THE SIMILARITIES

(a) *High levels of investment*

The most obvious similarity between South Korea and Taiwan on the one hand and the high-performing economies of South East Asia on the other is the high proportion of GDP devoted to investment (Table 6). This variable is also correlated with economic growth in East and South East Asia; those economies which grew strongly through the 1980s had much higher ratios of investment to GDP in 1979–81 than those which grew slowly. But there was also a significant correlation between growth over the 1980s and investment ratios at the end of the decade, which suggests that rapid growth led to high rates of investment as well as *vice versa*.[6] Collins and Bosworth (1996, Table 6) point out that much of the growth in output per worker in South East Asia can be accounted for by growth in capital stock per worker, together with growth in education. Only in Singapore during 1984–94 did total factor productivity growth account for more than 50% of growth in output per worker.[7]

Table 6. *Investment as a ratio of GDP (annual average 1988–92)*

Country	Investment as a percentage of GDP
Japan	37.7
South Korea	36.8
Singapore	33.4
Malaysia	31.2
Indonesia	27.5
Thailand	26.4
Taiwan	23.9
China	22.6
Philippines	16.1
Myanmar	7.3
Laos	2.2

Source: Penn World Tables version 5.6 as published on the Internet.

As in the case of South Korea and Taiwan, a key question is: why were rates of growth of capital stock so rapid in economies such as Thailand, Malaysia, Singapore and Indonesia? A frequent response is that these economies have relied heavily on foreign direct investment (FDI), which accounted for a high proportion of total capital formation in these economies over the last two decades, and especially from 1986 onward when the revaluation of the yen, the won and the Taiwanese dollar led to a marked acceleration in outward foreign investment flows from North East Asia into other parts of the region. But the available evidence indicates that only in Singapore did FDI account for more than 15% of gross domestic capital formation in 1986–91 (Table 4). In fact FDI accounted for a higher percentage of total capital formation in several European economies over these years than in Malaysia, Indonesia, Thailand or the Philippines (Yoshida *et al.*, 1994, Table 4.4).

The apparently small role played by FDI in gross domestic capital formation in most parts of South East Asia does not of course imply that FDI has not been an important vehicle for disseminating technologies and new management methods. Just how well FDI has played this role is a matter of some controversy in different parts of the region; I return to this debate below. Some critics of FDI in Thailand, Malaysia and Indonesia have argued that foreign investment has "crowded out" domestic capital, but as Pasuk (1996, p. 371) argues in the case of Thailand:

> If anything, foreign investment has "crowded in" domestic investment through a demonstration effect. Many export companies were joint ventures, often growing out of alliances formed earlier to import or produce for Thailand's home market. In many other cases, local firms were able to copy or emulate foreign exporters. And in a few cases, domestic firms bought out companies initially set up by foreign investment.

As in South Korea and Taiwan, foreign borrowing by both government and private enterprises has been an important source of investment funds in Thailand, Malaysia and

Indonesia. But the available evidence indicates that in all three economies most investment funds have come from domestic savings. The Indonesian Planning Commission estimate that 92% of investment funds over the Fifth Five Year Plan (1989–94) came from domestic sources, the majority of them private (Booth, 1994, Table 4). Domestic private savings have grown rapidly in all three economies and as the financial system becomes more sophisticated, these savings are increasingly being channelled to efficient private investors. Reliance on foreign funds to finance either government or private investment can thus be expected to further decline over coming years.

(b) *Exports and growth*

In discussing the relationship between exports and growth in South Korea and Taiwan, it was pointed out that both economies had been heavily involved in production for export in the Japanese colonial era. In South East Asia, the promotion of exports was also an important goal of the colonial regimes. Although they were by no means "free trade" economies (most colonial governments in South East Asia discriminated in favor of imports and investment from the metropolitan power, as did Japan in Taiwan and Korea), production for export by both large-scale foreign estates and smallholders accelerated rapidly throughout the region in the late 19th and early 20th centuries. Several countries in South East Asia continued to expand their export economies in the 1950s; in 1958–62 exports per capita were higher everywhere in South East Asia than in South Korea, although they were only higher than Taiwan in Malaysia, Singapore and Brunei (Table 5).

By the early 1960s, however, the dichotomy between what Myint (1967) called the "inward-looking" and the "outward-looking" countries of South East Asia was already obvious. On the one hand, Malaysia, Singapore, Thailand and the Philippines continued to expand their exports in real per capita terms, while on the other, the export economies of Burma, Indonesia and the countries of former French Indochina (Vietnam, Laos and Cambodia) stagnated or declined (Table 5). Since the early 1960s, Malaysia, Singapore and Thailand have all continued to expand and diversify their export economies. In Thailand, for example, per capita exports grew almost 50-fold in nominal US$ terms between 1958–62 and 1991–95, while at the same time the proportion of exports accounted for by manufactured goods rose from under 20% to over 70% in the early 1990s (Table 5). Similar diversification away from a narrow range of agricultural and mineral exports has occurred in Malaysia, Indonesia, the Philippines and Singapore.

There is very little relationship between an indicator of "openness" (exports and imports as a proportion of nominal GDP) in the early 1960s and subsequent economic growth in East and South East Asia. Excluding Singapore, the correlation was even lower.[8] Some countries which were very open in the early 1960s (such as Burma) subsequently grew very slowly while others such as Malaysia grew very rapidly. The difference between these two polar cases is explained by the policy regime. In Malaysia successive governments have maintained a market-determined exchange rate, and encouraged foreign investors to establish export-oriented manufacturing plants, often located in export-processing zones. In Burma, the government pursued autarkic policies for over 20 years, and although there were some policy changes after 1987, the complex multiple exchange rate regime and a very corrupt administrative system together have deterred most foreign investors. In South Korea, as we have seen, the export economy recovered rapidly from the very low level reached in 1958–62 as a result of government policies designed to accelerate export growth.

Indeed the common lesson from Taiwan, South Korea and the fast-growing economies of South East Asia would seem to be that it is the policy regime which is the main determinant of export growth, and that an export-friendly policy regime is essential in order to achieve the virtuous circle of rapid export growth leading to increased investment which in turn promotes further growth. What then determines the policy regime? Are there any similarities between the North East Asian developmental states, and the South East Asian regimes?

(c) *An "insulated" economic bureaucracy?*

The concept of the strong developmental state, derived from the experience of Japan, South Korea and Taiwan, emphasizes the high degree of autonomy enjoyed by key decision-makers, especially in the bureaucracy. Can we find any evidence of insulated bureaucracies in South East Asia? Certainly the Bank of Thai-

land has enjoyed a considerable, albeit fluctuating, degree of autonomy over several decades and was crucial in maintaining a stable monetary and fiscal policy regime through Thailand's years of accelerated growth, while in Thailand, Indonesia and Malaysia, technocrats in the Ministries of Finance have been able to insulate key areas of macroeconomic policy-making from overt political interference.[9] In Thailand and Indonesia, for example, the administration of duty drawback schemes, crucial to the rapid growth of a number of export-oriented industries, were placed in the Ministries of Finance to minimise corruption and malpractice.[10]

At the same time, however, some authors have claimed that policy-makers in the fast-growing economies of South East Asia have always been ready to listen to influential business lobby groups, who in their turn have been catalysts of policy reform, and active in promoting structural adjustment measures. In the case of Thailand, Laothamatas (1992), Doner and Laothamatas (1994) and Rock (1995) argue that the successful implementation of a series of structural adjustment measures during 1980–85 was due in large measure to the government's successful attempts to build effective alliances between technocratic advisers (usually academic economists with strong neoclassical sympathies), key politicians, and business groups. While, as Pasuk (1996, pp. 373–381) points out, it is difficult to fit Thailand with its notoriously weak planning apparatus, into the strong developmental state model, it is also wrong to assume that the government did nothing to facilitate industrial expansion. Interventions in both capital and labor markets were crucial and often carried through at the instigation of, and with the full cooperation of, powerful industrial groups.

Macintyre (1994, p. 10) suggests that countries such as Thailand, Malaysia and Indonesia comprise an intermediate case between the strong developmental states of Northeast Asia (Singapore would also have to be included in this group) and the notorious "klepto-patrimonial" regimes of Africa such as Nigeria or Zaire. Their governments are not hopelessly captured and corrupt, but on the other hand they are frequently beholden to sectional interest groups, and tainted by nepotism and cronyism. Nevertheless, the Malaysian, Thai and Indonesian governments have been capable of coherent policy formulation and implementation in the face of external shocks, and have thus been able to maintain the momentum of growth over several decades. In this they resemble Taiwan and South Korea to a greater extent than regimes in other parts of the developing world.

4. SOUTH EAST ASIA: THE DIFFERENCES

(a) *Different initial conditions: land and natural resource abundant export economies*

An obvious contrast between the resource poor, densely settled countries of North East Asia and most parts of South East Asia is that the latter were able to initiate economic growth by exploiting their abundant reserves of land and natural resources. This in turn influenced the role of government in both the colonial and the post-colonial era; Amsden (1995, p. 794) argues that Malaysia, Indonesia and Thailand rich natural resources allowed a

> more modest initial role for the government than in Korea and Taiwan. The leading sectors of these South East Asian countries were agro-based and competitive in world markets without substantial productivity-augmenting support from government, and without significant reliance on imported inputs.

This argument has some merit, although colonial governments in many parts of the region were considerably more than mere "night-watchmen" states. In the Netherlands East Indies (Indonesia) not only was per capita government expenditure quite high in comparison with other parts of Asia, but government intervened in, and regulated, key markets for goods and services (Booth, 1998, p. 154). Everywhere in South East Asia, governments both colonial and post-colonial taxed primary exporters quite severely, usually through export taxes, and used the revenues to develop infrastructure. In the mid-1960s, government expenditure as a proportion of GDP was higher in Malaysia than in Korea and only slightly lower than in Taiwan in spite of the higher burden of defence expenditure (Table 7). Since then, it would be rather difficult to call Malaysia an example of minimalist government, although the nature and purpose of government intervention in Malaysia, and indeed in Indonesia, has been rather different from in South Korea and Taiwan. I return to this point below.

Table 7. *Government expenditure as a ratio of GDP*

Country	Year	Government expenditure as a percentage of GDP	Per capita GDP [a] ($)
Singapore	1960	7.0	1649
Malaysia	1966	16.4	1729
Taiwan	1966	19.8	1750
South Korea	1970	12.5	1694
Thailand	1973	12.9	1716
Indonesia	1988	15.0	1681
Philippines	1991	16.3	1715

[a] Per capita GDP in 1985 international dollars adjusted for changes in the terms of trade.
Source: Penn World Tables version 5.6 as published on the Internet.

A frequent argument made in the context of Malaysia and Indonesia in particular is that

> the availability of natural resource rents— most notably from petroleum, natural (petroleum) gas, tin, and timber— has been very significant...allowing the government greater latitude and capacity than most other governments in the world (Jomo and Gomez, 1997, p. 367).

There can be little doubt that successive governments in both countries have benefited from such "easy to tax" sectors, and that especially in periods of high world prices for key staples (rubber, tin, petroleum, gas, timber) huge increases in government revenues have occurred, with little or no government effort. Such "manna dropping from heaven" has caused considerable problems of macroeconomic stabilisation and raised production costs for other traded goods sectors, as analyzed in the large "Dutch Disease" literature.[11] Similarly in periods of low prices both the government budget and the balance of payments have come under great pressure. There is a sense in which the economic history of both Indonesia and Malaysia over the past century is a history of government response to fluctuations in the prices of key export staples. The same could hardly be argued about South Korea and Taiwan.

(b) *Different initial conditions: education and the distribution of income*

Virtually everywhere in South East Asia with the exception of the Philippines under US rule, the colonial regimes left behind an extremely meager educational legacy. Not only was there inadequate provision of educational facilities, but such facilities as did exist were mainly (at the post-primary level almost exclusively) in large towns and cities, and places were usually allocated on the basis of race and income, rather than academic merit. The well-known study by Furnivall (1943, p. 111) showed that in the late 1930s the proportion of the population enrolled in recognized schools was around 11% in Taiwan and the Philippines, 9.7% in Thailand, 6% in Malaya, 4% in Burma, 3.4% in the Netherlands Indies and only 2.1% in French Indochina. Furnivall (1943, p. 119) pointed out that the good performance of the Philippines and Thailand in comparison with the rest of the region was due to "specially favourable circumstances";

> in both countries the chief impulse to the progress of primary instruction has been the nationlist drive behind it. In the other countries foreign governments have inevitably been critical of nationalist enthusiasm, and nationalist leaders have had less zeal for primary instruction than for higher education, which, as they hope, will equip them for handling national affairs.

In British Malaya, the appointment of the noted scholar of Malay culture, Richard Winstedt, to the post of assistant Director of Education in the inter-war years appeared to usher in a period of educational progress for rural Malays. But as Rudner (1994, p. 288) has pointed out, access to English language education continued to be restricted to a tiny minority, almost entirely in urban areas. For the rural Malay, the number of years in elementary schooling was reduced and the curriculum was oriented to such manual skills as basket weaving and horticulture.

> This benign, custodial outlook in education tended to reinforce the prevailing colonial assumption that the Malay peasantry should be retained, and improved, in their traditional kampung environment and saved from the disruptions of modernization.

In colonial South East Asia as in most other parts of the colonial world, education in the language of the colonial power was the key to non-agricultural employment, especially in highly remunerated professional, technical, administrative and clerical occupations. The skewed access to secular, non-vernacular education inevitably resulted in substantial disparities in income between and within ethnic groups, and between urban and rural areas. In rural areas the distribution of land became more skewed especially in regions where large estates were established. In the very densely settled regions of South East Asia (Java and Bali, the Red River delta in North Vietnam), a growing population could no longer be accommodated on the available land, and a landless rural proletariat emerged which depended mainly on wage income to survive. Given the large numbers competing for the available wage labor, wages and total incomes were extremely low.

In the more land abundant parts of the region, growing rural populations were accommodated through an expansion of the cultivation frontier. But often the land was of poor quality, and basic infrastructure such as irrigation and roads were not provided. In addition, in some frontier areas such as North East Thailand, new settlers were in effect squatters with no title to land. Thus they could not use their land as collateral to borrow, even where rural credit facilities were available.[12] Those farmers growing export crops such as rice in Thailand, and rubber in Malaysia and Indonesia, were taxed very heavily via graduated export taxes. The burden of taxation on rural incomes earnt from export crop cultivation was thus much heavier than on incomes derived from other sources (Booth, 1980). Over time the effect of such discriminatory policies was to widen urban-rural and interregional disparities in incomes and living standards.

As a result of these trends, substantial differentials had emerged within indigenous populations in South East Asia by the 1960s, based on access to land and education. In addition, the last phase of the Western colonial era saw the emergence of growing disparities between indigenous populations and immigrant Chinese, especially in Indonesia and Malaya. In most cases these disparities were not greatly reduced in the early post-independence years. Thus most countries in the regions entered a phase of accelerated growth in the 1960s with greater disparities in income than was the case in either Taiwan or South Korea.

(c) *Educational progress since 1960*

It might have been expected that given the poor educational legacy from the colonial era, the newly independent states of South East Asia would have given high priority to educational expansion after 1950. To a considerable extent, this was the case, but given the low level from which educational expansion was starting in most parts of the region, great efforts and resources were required, and government revenues were not always sufficient. Thus private sector education played an important role in educational expansion, especially at the post-primary levels. In countries such as Indonesia, Malaysia and Thailand, universal primary education became a key government priority and was indeed achieved by the early 1980s. But progress in post-primary enrollments was much slower and more erratic.

In Thailand over the 1980s, post-primary enrollments stagnated; indeed at the senior high school level they contracted (Booth, 1997, Table 8). In 1992, when per capita GDP in Thailand was roughly equal to what had been attained in South Korea in 1984, or in Taiwan in 1978, gross enrollment ratios at the secondary level were still only 37%, compared with 76% in Taiwan in 1978 (Table 3). In Indonesia growth in secondary enrollments through the 1980s was very rapid, although upper secondary enrollments contracted in the early 1990s. Even so, in 1992, gross enrollment ratios in Indonesia were higher than in Thailand, although still lower than in South Korea two decades earlier. Even in Malaysia, where government spending on education had risen to over 5% of GDP in 1990, the gross secondary enrollment ratio was only 56%, compared with 100% in Taiwan in the mid-1980s.

It is clear from Table 3 that educational progress in the fast-growing countries of South East Asia has been much slower than in Taiwan and Korea. Singapore, Malaysia, Thailand and Indonesia all had lower levels of educational attainment than Taiwan or South Korea in the 1960s; and in spite of considerable expansion in enrollments at the primary and secondary levels, the gap has not closed, especially in Thailand and Indonesia. Indeed in both countries there were signs of falling educational enrollments at the secondary level in the 1980s, and early 1990s. The effects of this are clear when

we look at the educational attainment of the labor force in Indonesia and Thailand in comparison with South Korea when levels of per capita GDP in the three countries were roughly similar (Table 2). Already by 1974, only 13.6% of the male Korean labor force, and 29.6% of the female labor force had five years of schooling or less. In Thailand in 1981 the corresponding figure was 83.3% for males and 89.5% for females.

It is ironic that in South East Asia only the Philippines emerged into the post-colonial era with a strong educational base; this asset was squandered under the Marcos regime when macroeconomic policy mistakes led to low levels of investment and capital flight. Rodrik (1995, p. 96) argues that the Philippines experience casts doubt on the theory that countries beginning their growth process with high levels of human capital relative to physical capital are likely to grow fast. While the experience of South Korea and Taiwan may support such a theory, that of the Philippines, Sri Lanka and several Latin American countries does not. Clearly a sustained improvement in the educational level of the population is a necessary but not a sufficient condition for economic growth.

(d) *Government economic intervention and regulation*

Reference has already been made to the important debate which has emerged over the past few years on the role of government in promoting rapid economic growth in South Korea and Taiwan. In these two economies there now appears to be a measure of consensus that governments have been important not just in removing policy-induced distortions, but also in coordinating and subsidizing private investment. In the South East Asian context, no such consensus yet exists. Instead, several contending schools of thought have emerged. First, there are those who argue that the success of Indonesia, Singapore, Malaysia, Thailand is a triumph of "orthodox policies" and that government interventions, although pervasive, have usually been deterimental to growth. This is especially true of interventions at the enterprise level. Subsidy allocations have seldom been tied to any credible performance criteria, but are usually made either on the basis of political cronyism, or to achieve non-economic goals such as the promotion of indigenous (i.e. non-Chinese) businesses. Export growth and diversification in South East Asia has not been due to government guidance but primarily to multinational companies relocating to the region to take advantage of lower operating costs. State-owned enterprises (SOEs) have benefited from capital injections either from the government budget or from subsidised bank loans, but for the most part SOEs perform poorly according to standard rate of return criteria (Hill, 1996, pp. 161–265).

This school does not downplay the importance of economic policy-making as a prerequisite for rapid economic growth. Rather it argues that Thailand, Singapore, Malaysia and Indonesia all grew fast because their economic managers have got the macroeconomic fundamentals right, or where these fundamentals were clearly wrong, governments were prepared to change tack. Especially during the 1980s, they devalued exchange rates, deregulated, privatized and restructured markets, thus creating a positive investment climate for both domestic and foreign investors. Other writers claim however that several South East Asian governments went considerably further than simply creating a positive investment climate, and actively intervened in markets in order to achieve specific goals. Pasuk (1996, pp. 372–374) has described the "major interventionist role in remodelling key markets for capital and labour" played by the Thai government in the 1980s,[13] while Rock (1995, p. 755) argues that "industrial policy in Thailand has been more coherent than neo-liberals admit." In the Singapore context, Huff (1995, pp. 740–746) has pointed to three areas where the government quite clearly supplanted the market with government direction; the wage-setting process, the extensive use of state-owned enterprises, and the use of a state-run provident fund in order to increase private savings.

A third school of thought, based largely on the Malaysian case, concedes many of the points made by writers in the first camp. It points to the very poor performance of many of the heavy industries set up by government under the umbrella of HICOM, the Heavy Industries Corporation of Malaysia, established in order to promote industrial "deepening" (Jomo *et al.*, 1997, pp. 101–103; Jomo and Gomez, 1997, p. 357). But this literature is also critical of some of the neoliberal solutions to the problem of government failure, especially the Malaysian government's ambitious privitaization program. According to Jomo and Gomez (1997, p. 366) this program was itself "captured" by powerful political interests; the

tendering process was far from transparent and indeed the entire process was designed to transfer valuable assets to a small group of powerful businessmen connected to the ruling United Malay National Organisation. They suggest that Malaysia would have been better advised to embark on a policy of state enterprise management reform, rather than wholesale privatization.

There can be little doubt the objectives of intervention in Malaysia were quite different from those in Korea or Taiwan. The primary goal for 1970–90 was to address ethnic imbalances in the economy, and all other goals including that of international competitiveness and industrial efficiency were subordinated to that (Jomo *et al*., 1997, p. 105; Jomo and Gomez, 1997, pp. 357–365; Lall, 1995, pp. 764–766). Obviously the Malaysian bureaucracy could not play the tough disciplining role of that in Korea when its main goal was to promote the growth of industrial and commercial enterprises owned by the relatively backward Malay majority. Indeed Lall (1995, p. 765) thinks that criticism of Malaysian interventions is unwarranted at least in part because "the design of the interventions in Malaysia was not ideal and so does not constitute a proper test for the effectiveness of industrial policy."

An important point made by Lall (1995, p. 771), drawing on Wade (1994, pp. 65–68) is that Malaysia (and by extension other countries in the South East Asian region)

> is reaping the benefits of industrial policy undertaken earlier by other countries in the region, in particular Japan, Taiwan, Singapore and Korea. A large part of the export growth is fuelled by the capabilities that selective interventions in these countries fostered, which then spilled over to neighbouring countries that offered cheaper labour and a conducive investment climate...The market forces that Malaysia's "market friendly" policies tapped were thus themselves the creatures of industrial intervention

There is some truth in this type of argument, although the dependence on FDI to fuel manufactured export growth has varied considerably by country, and, as I have already argued, the importance of North East Asian capital can easily be exaggerated in South East Asia industrialization. But whatever conclusion one reaches on this issue, the broader point remains, that government interventions in South East Asia have been different in scope and purpose from those in South Korea and Taiwan. This leads me to consider a further set of claims about the very different nature of capitalist economic development in South East Asia.

(e) *Crony capitalism and ersatz capitalism*

Although some authors such as Amsden (1995, p. 791) have argued that the growth experiences of Indonesia, Malaysia and Thailand form part of a single "late-industrializing paradigm," there is a considerable literature which argues that economic growth in South East Asia is not only different from earlier episodes in Europe, the United States and Japan but also "ersatz," or fake, and by implication, unsustainable. Yoshihara's well-known contribution points to three aspects of South East Asian industrial growth which, he claims differentiate it from earlier industrial success stories, and also cast doubt on its sustainability:

> — it is very dependent on foreign capital and technology–it is driven by foreign companies and the overseas Chinese–where indigenous capitalists have emerged, they are often mere "rent seekers", exploiting political connections to build up huge conglomerates.

Are these claims true and if so, do they matter? An obvious counterargument to the first point is that all late industrializing countries have depended on imported technology, including of course Japan in the latter part of the 19th and early 20th centuries, and Taiwan and South Korea in more recent decades. Yoshihara (1988, p. 112) counters this by arguing that, although it is true that Japan, Korea and Taiwan all imported machinery, their technological dependency was not as complete as in contemporary South East Asia where most industrialists are simply Japanese "compradores". Indeed he goes as far as to talk about "technologyless industrialization" in the South East Asian context.

Yoshihara's arguments have undoubtedly struck a chord with a number of South East Asian scholars who are concerned about the extent of dependency on foreign technology, the continuing dominance of the Chinese minority in industry and commerce and the growth of large conglomerates, especially in Indonesia and Malaysia, owned by individuals whose success owes far more to their political connections than to any obvious entrepreneurial ability. In the Malaysian context Ali (1992, p. 170) has made a case for "a more systematic and comprehensive approach to the

issue of technology transfer acceleration", while in Indonesia the efforts of the Minister of Reasearch and Technology, Dr Habibie, to build up an aircraft industry have received much attention (McKendrick, 1992).[14] But policy prescriptions designed to accelerate technology transfer are not always convincing, especially when they involve substantial government subsidies to promote "leapfrogging" into high technology industry. The work of Hobday (1994, 1995) on Singapore, the most successful South East Asian economy in terms of upgrading the technological sophistication of its export industries, suggests that:

> technology was accumulated in a gradual and painstaking manner, with firms engaging in a hard slog of incremental learning in response to factor price increases and the improving infrastructure. Contrary to leapfrogging, much of their advance was in pre-electronic activities such as mechanical, electromechanical and precision engineering...many of the products exported embodied many pre-electronic inputs. Singapore's route towards electronics was through competence building in basic industrial technologies (Hobday, 1995, p. 160).

Hobday argues that multinational companies in Singapore have trained staff and formed a number of research and educational connections. These can be expected to increase as the educational attainment of the labor force improves. The Singapore experience underlines the crucial importance of government investment in education and training. If countries such as Thailand and Indonesia want to improve the technological sopistication of their export sectors they too must be prepared to make this investment. Attempts by government agencies to promote technology transfer cannot succeed in the absence of a strong committment to education, especially at the post-primary and vocational levels.[15]

(f) *Ethnic and regional disparities in income and wealth*

The last significant point of difference between the North East Asian and the South East Asian experiences of accelerated economic growth concerns the distributional outcomes. I have already emphasized that an important part of the colonial legacy in South East Asia were the substantial income disparities between urban and rural areas, between regions and between ethnic groups, which persisted in the immediate post-independence era. Most countries in the region embarked on a process of accelerated growth after 1960 with greater income differentials than in South Korea or Taiwan. Although international comparisons of inequality indicators are fraught with difficulties, the available data on the distribution of household income/expenditure show a less skewed distribution, with a lower proportion of total income accruing to the top decile in South Korea and Taiwan than in most parts of South East Asia (Table 8). In Malaysia and Thailand in 1989 and 1992 respectively, the ratio of the percentage share of the top decile to the bottom two deciles was very much higher than in Taiwan in 1972, or South Korea in 1976.

Greater interpersonal disparities are only one facet of the differences in the distribution of income between South Korea and Taiwan on the one hand and South East Asia on the other. We must also examine spatial inequalities and interracial inequalities. In Indonesia, interprovincial inequalities in GDP have been high since the late 1960s, largely because of the concentration of mining and manufacturing activities in a few locations. Although the decline in GDP in several oil-producing areas as a result of production cutbacks has led to some dimunition in regional inequalities, the disparities in per capita GDP by province remained quite high in the early 1990s (Akita and Lukman, 1995, Table 2). Urban-rural differentials in per capita consumption expenditures have widened since 1980, and disparities in consumption expenditures within urban areas have also widened (Booth, 1992, pp. 329–334). In Thailand, where urban-rural and spatial income differentials have always been high, there is little evidence of any narrowing of the gap during the era of rapid growth after 1980 (Pranee, 1995, Table 10.7). In 1992, the share of total household income accruing to the poorest two deciles was 5.6%, no higher than in the mid-1970s (Table 8). Similarly in Malaysia, rapid growth has been accompanied by only a modest narrowing of income disparities since the mid-1980s (Table 8). In Singapore, a recent analysis of personal income data indicates that the Gini coefficient of taxpayer incomes has been increasing slowly since the mid-1960s, and by 1992 was 0.48, indicating a fairly skewed overall distribution (Rao, 1996, p. 387). In 1982–83 the distribution of household income was far more skewed than in Japan in 1969, when per capita GNP was roughly similar (Table 8).

Table 8. *Distribution of income in East and South East Asia by decile group and country*

Country	Year	Per capita GDP ($) [a]	Percentage share of		Ratio of top 10% to bottom 20%
			Top Decile	Bottom 20%	
Singapore	1982–83	8565	33.5	5.1	6.6
Japan	1969	6995	27.2	7.9	3.4
South Korea	1976	2584	27.5	5.7	4.8
Malaysia	1973	2504	39.8	3.5	11.4
	1989	4571	37.9	4.6	8.2
Thailand	1975–76	1813	34.1	5.6	6.1
	1992	3931	37.1	5.6	6.6
Taiwan	1964	1574	26.7	7.7	3.5
	1972	2698	22.7	8.9	2.6
Philippines	1970–71	1433	38.5	5.2	7.4
	1988	1699	32.1	6.5	4.9
Indonesia	1976	902	34.0	6.6	5.2
	1993	2142	25.6	8.7	2.9

[a] Per capita GDP in 1985 international dollars adjusted for changes in the terms of trade.
Source: GDP data: Penn World Tables version 5.6 as published on the Internet; Income Distribution data: World Bank (1983, pp. 200–201); World Bank (1997, pp. 222–223); Taiwan: Ho (1978, p. 141)

One possible reason for the more skewed distribution of income in many parts of South East Asia compared with Japan, South Korea and Taiwan at similar levels of real per capita GDP is that non-agricultural employment opportunities have been growing more slowly, and those that have been created are in poorly remunerated service sector occupations rather than in the more secure and highly paid manufacturing sector. Certainly in most parts of South East Asia except the Philippines, the proportion of the labor force in agriculture is higher than in Japan, Taiwan or South Korea at a similar level of income (Table 9). This in itself would not necessarily lead to a more skewed distribution of income; in land abundant economies such as Malaysia and Thailand it could be argued that people can make an adequate living in agriculture and do not need to migrate.[16] But the high urban-rural income disparities common in South East Asia suggest a rather different explanation. Many people stay in rather poorly remunerated agricultural jobs because they doubt that they can find non-

Table 9. *Composition of the employed labour force in East and South East Asia (Per capita GDP of approximately $2040, 1985 prices)*

Country/Year	% Employed labor force in agriculture	% of non-agricultural employed labor force in services
Philippines (1995)	43.6	71.9
Indonesia (1992)	53.7	68.2
Thailand (1978)	66.5	64.3
Malaysia (1970)	53.5	68.7
South Korea (1978)	50.0	60.6
Taiwan (1969)	39.0	56.7
Japan (1955)	42.9	59.8

Sources: Philippines: *Philippines Statistical Yearbook 1996*, Table 11.3 (Manila: National Statistical Coordination Board); Indonesia: *Labour Force Situation in Indonesia*, 1992 (Jakarta: Central Bureau of Statistics); Thailand: *Report of the Labour Force Survey, July-September, 1978* (Bangkok: National Statistical Office); Malaysia: *Third Malaysia Plan 1976-80*, Table 8.1 (Kuala Lumpur: Government Printing Office); South Korea: *Korea Statistical Yearbook 1979*, p. 70 (Seoul: Bureau of Statistics); Taiwan: *Taiwan Statistical Data Book, 1972*, Table 2.9b (Taipei: Bureau of Statistics); Japan: *Japan Statistical Yearbook 1958*, pp. 44–45 (Tokyo: Bureau of Statistics)

agricultural employment, and those that do move into non-agricultural jobs tend to find them in services rather than manufacturing. It is striking that a considerably higher proportion of non-agricultural employment in Indonesia, Thailand, Malaysia and the Philippines was in services compared with Taiwan, South Korea and Japan at similar levels of income.[17]

What are the consequences of these greater disparities? Studies using cross-sectional data from a large number of developing countries have reached the conclusion that "inequality in income and land distribution is negatively associated with subsequent growth" (Alesina and Rodrik, 1994, p. 485; see also Birdsall, Ross and Sabot, 1995, p. 495). Clearly such a finding would have to be treated with great caution in the South East Asian context where Thailand and Malaysia, starting from a fairly skewed distribution of income in the 1970s, have achieved rapid growth over the past two decades.[18] But large income disparities can have destabilizing effects. In both Malaysia and Indonesia, there are very considerable regional disparities in poverty, and some resource-rich regions such as Sabah in East Malaysia, and Irian Jaya in Eastern Indonesia have high incidences of poverty relative to the national average. This is partly due to the system of resource taxation which drains a large part of the profits from exploitation of minerals and timber off to the center (Booth, 1996, pp. 199–202). In the longer run such a system is bound to fuel regional tensions, and even lead to separatist movements.

5. CAN SOUTH EAST ASIAN GROWTH BE SUSTAINED?

Attitudes to South East Asia in the economic development literature have varied enormously over the past four decades. In the 1960s the prevailing mood was one of pessimism. Indonesia was termed "the chronic dropout," while Malaysian prospects were viewed with concern because of the deep and apparently unbridgeable ethnic divide. Singapore, after it broke away from Malaysia in 1965 seemed to have little chance of rapid development as an independent economy, and Thailand was considered still semi-feudal, with an entrenched elite which appeared to have little commitment to, and nothing to gain from, rapid modernization. French Indochina had become an arena for a prolonged and devastating civil war between communist forces backed by the Soviet bloc and non-communist forces backed by the United States. In 1960, Burma and the Philippines seemed to many observers to have the best prospects for rapid economic development.

By the early 1990s much had changed. Indonesia, Malaysia, Singapore and Thailand were all included in the "East Asian Miracle" study. Together with Japan, Taiwan, Hong Kong and South Korea, these countries had

> emerged with an apparent long-run model of development, seeming to have done almost everything right. Against them, one can contrast other countries and ask what went wrong (Bruno, 1994, p. 10).

By early 1998, it was clear that much was going wrong in several of the countries which the World Bank had claimed were models for much of the rest of the developing world. It is beyond the scope of this paper to examine the reasons for the dramatic reversals of economic fortune which Thailand, Malaysia, Indonesia and South Korea have suffered since mid-1997. Rather, the purpose of this paper has been to argue that the South East economies as a group, and even those ones (a minority) which have been growing fast since the 1960s, are in a number of important respects different from Japan, South Korea and Taiwan. The economic failures in the region, and there are several of them, have as much in common with the economies of sub-Saharan Africa than with other parts of East Asia. Any prediction about South East Asia's economic future must be based on close study of its economic past, rather than on any cosy assumption that the region forms part of an enormously successful "East Asian model" with lessons to offer other parts of the developing world.

NOTES

1. As well as the seven countries whose experience formed the basis of the World Bank report East Asia includes China, North Korea, Vietnam, Brunei and the Philippines, Burma, Laos and Cambodia.

2. Kuznets (1988) presents a lucid summary of the main elements of the "East Asian" model, and the following discussion draws on that paper.

3. Kohli (1994, pp. 1272–1273) argues that Japanese colonialism played a crucial role in transforming the traditional predatory state in Korea into a developmental state along Japanese lines. In his words, the "impact of Japanese colonial power was decisive in altering both the nature of the Korean state and the relationship of this state to various social classes."

4. It is not possible to review the literature on the growth of savings in East and South East Asia in this paper but Faruqee and Husain (1995) provide a useful overview for South East Asia. Han (1996) provides a discussion of the reasons for the rapid growth in savings in Singapore, and Poshyananda (1995) examines the evidence for Thailand.

5. The extreme dependence on Japan for both exports and imports was in fact far higher than the trade dependence on the metropolitan power in most of the other Asian colonies in the 1930s, at least partly because Japanese exports to countries such as the Philippines, Indonesia, Malaya and India rose so rapidly during 1925–35. For a discussion of the Indonesian case see Booth (1998), chapter 5.

6. The correlation coefficient was 0.65 for growth over 1980–92 and the investment/GDP ratio in 1979–81, but 0.75 for growth over 1980–92 and the investment/GDP ratio in 1988–92.

7. It should be noted that Young (1995, Table VI) reaches a different conclusion on the contribution of TFP to total output growth in Singapore over the 1970s and 1980s; he argues that it was negative in both decades. It is difficult to detect whether this difference is due to data or to different methodological approaches or to some combination of both. A good survey of the TFP debate in Singapore is given by Lall *et al.* (1996), while Chen (1997) reviews the literature for all of East Asia.

8. The R-squared for a simple regression for nine countries of growth during 1960–92 and the openness indicator for 1960 was 0.18, falling to 0.007 without Singapore. In neither case was the coefficient on the openness indicator significant.

9. The literature on the role of economic technocrats in South East Asia is now quite extensive. Pasuk (1992) examines the interaction between technocrats and business leaders in economic policy-making in Thailand in the early 1980s. Warr and Nidhiprabha (1996, pp. 210) discuss the role of the Bank of Thailand; Jomo and Gomez (1997, pp. 105) examine the role of the bureaucracy in Malaysia. Bresnan (1993, chapter 3) and Cole and Slade (1996, pp. 327) discuss the role of technocrats in economic policy-making in Soeharto's Indonesia.

10. Yoshihara (1994 chapter 18) contrasts the performance of the bureaucracy in Thailand and the Philippines after 1960, and concludes that in Thailand government interventions were far more pro-market and supportive of rapid capital formation in the private sector than in the Philippines, especially in the martial law era.

11. See Warr (1992) for a full discussion of this literature in the Indonesian case.

12. Tongroj (1990 chapter 6) discuss the problems of land rights and land titles in Thailand.

13. Pasuk places particular emphasis on measures adopted by the government to increase competition in the banking sector, and expand the domestic capital market. In the labor market the government reacted to the end of the labor surplus phase of Thai development by increasing minimum wages and implementing worker protection legislation.

14. There is some debate among Malaysian economists on the extent of technological and other linkages between the export-oriented manufacturing sector dominated by large multinationals especially in the electronics sector, and domestic firms. Jomo and Gomez (1997, p. 107) argue that the linkages are small but Rasiah (1995, p. 194) finds evidence that foreign firms have "played important roles in the transformation of local firms," although the extent of the influence varied by type of firm.

15. Ranis (1995, p. 529) points out that overall 60% of Taiwan's industrial research and development (R&D) is carried out by the private sector and the balance within various public sector institutions most of which are oriented to the needs of small and medium-scale firms. In most parts of South East Asia, such firms are largely ignored by government and such agencies as do exist to assist them in upgrading technology are poorly equipped and understaffed.

16. It is well known that Taiwan was extremely successful in generating rural non-farm employment opportunities in the 1960s and 1970s. Ranis and Stewart (1993, Table 14) show that rural non-agricultural incomes grew well over three times as fast as agricultural incomes over 1962–80. In the Philippines during 1965–85 non-agricultural incomes grew no more rapidly than agricultural incomes. A comparison of agricultural

household income data for Indonesia in 1984 and 1993 indicates that off-farm sources of agricultural household income grew no faster than on-farm sources. It appears that what Ranis and Stewart refer to as the linkage ratio was far more powerful in Taiwan than in either Indonesia or the Philippines.

17. Berry (1978, p. 210) argues that the high proportion of the non-agricultural labor force employed in services in several Latin American economies reflects the fact that efficient manufacturing technologies are inherently more capital-intensive than in the 19th century when Western Europe, North America and Japan were beginning to industrialize. This may well be true, but hardly explains the higher proportion of the non-agricultural labor force employed in services in Malaysia in 1970 compared with Taiwan at much the same time.

18. In Thailand there seems to be clear evidence of increasing inequality in household expenditures during 1975–92 (Ahuja *et al*., 1997, Table 4.2).

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